

## Message Text

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ACTION EUR-12

INFO OCT-01 EA-06 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01

CIAE-00 CIEP-01 COME-00 DODE-00 EB-07 FPC-01 H-01

INR-07 INT-05 L-02 NSAE-00 NSC-05 OMB-01 PM-03 SAM-01

OES-03 SP-02 SS-15 STR-01 TRSE-00 FRB-03 PA-01 PRS-01

TAR-01 NEA-09 /101 W

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P R 281722Z FEB 75

FM AMEMBASSY ROME

TO SECSTATE WASHDC PRIORITY 9801

INFO AMEMBASSY ANKARA

AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

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AMEMBASSY TOKYO

AMEMBASSY VIENNA

AMEMBASSY WELLINGTON

USMISSION EC BRUSSELS

USMISSION OECD PARIS

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AMCONSUL MILAN

C O N F I D E N T I A L ROME 3002

E.O. 11652: GDS

TAGS: ENRG, IT

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SUBJECT: ITALIAN ENERGY POLICY: EVOLUTION

REF: A. ROME 2224 (NOTAL)

B. ROME 2778 (NOTAL)

C. ROME 2554 (NOTAL)

1. SUMMARY: RECENT DISCUSSIONS WITH INDUSTRIAL CONFEDERATION (CONFINDUSTRIA AND MFA WORKING-LEVEL OFFICIALS SUGGEST THAT ITALIAN ENERGY POLICY CONTINUES TO EVOLVE. CONFINDUSTRIA HAS CONCENTRATED UPON ECONOMIC ISSUES, CENTERED UPON NEED TO FIND SOLUTION TO BALANCE-OF-PAYMENTS PROBLEM. SOLUTION FORSEEN LIES IN INCREASING ITALIAN EXPORTS AND REDUCING IMPORTS (OR COST OF IMPORTS). IN THIS AREA, POLITICAL CONSIDERATIONS SUCH AS SECURITY OF SUPPLY, ETC. ARE OF SECONDARY IMPORTANCE. GOI THINKING IS SOMEWHAT BROADER, REFLECTING SECURITY AND OTHER INTERESTS. NEVERTHELESS, GOI ALSO CONCERNED ABOUT LONG-TERM ITALIAN ECONOMIC PROSPECTS IN VIEW OF US FLOOR-PRICE AND OTHER PROPOSALS. END SUMMARY

2. FOLLOWING UP ON ECON-COMM MINISTER'S CALL ON CONFEDERATION OF (PRIVATELY-HELD) ITALIAN INDUSTRY (CONFINDUSTRIA) DG MATTEI (REF A), EMBOFF MET WITH DOTT. ALFREDO SOLUSTRI, DIRECTOR FOR ECONOMIC RELATIONS TO DISCUSS US ENERGY PROPOSALS AND CONFINDUSTRIA'S PLANS FOR ITALIAN ENERGY POLICY. A MAJOR CONFINDUSTRIA CONCERN IS ITALY'S BALANCE OF PAYMENTS DEFICIT. CONFINDUSTRIA PROJECTIONS INDICATE NET 1975 OIL BALANCE WILL BE MINUM LIT. 6,300 BILLION (\$9.5 BILLION). EMBOFF NOTED THAT FIGURE SEEMED HIGH (IT IS BASED ON DOMESTIC CONSUMPTION OF 114 MILLION M.T., SUBSTANTIALLY ABOVE 1974 FIGURE), AND REVIEWED BRIEFLY IMF AND SOLIDARITY FUND PROPOSALS.

3. CONFINDUSTRIA BELIEVES POSSIBILITY OF RE-CYCLING PETRO-DOLLARS TO OFFSET BALANCE OF PAYMENTS DEFICITS HAS BEEN BOLSTERED BY RECENT STUDIES (MORGAN GUARANTY, CHASE MANHATTAN AND OTHERS), SHOWING THAT PRODUCER COUNTRIES CAN ABSORB MORE IMPORTS THAN PREVIOUSLY BELIEVED. WITH GOI MEASURES TO STIMULATE EXPORTS AND PARTICULARLY MEASURES DESIGNED TO FAVORABLY INFLUENCE OPEC BUYERS, THIS SUGGESTS THAT A DURABLE SOLUTION TO THE ITALIAN B-O-P PROBLEM MAY BE AT HAND. OPEC INVESTMENT IN CONSUMING COUNTRIES WOULD  
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BE ENCOURAGED, WHICH WOULD ALSO INCREASE SECURITY AS THE INVESTMENTS WOULD BE IN EFFECT HOSTAGES TO CONTINUED OIL SUPPLIES. EMBOFF EXPRESSED DOUBTS THAT BI-LATERAL SOLUTIONS WOULD BE SUFFICIENT, AND ANY CASE, IN NO WAY REFLECTED SECURITY AND POLITICAL CONSIDERATIONS. SOLUSTRI HASTENED TO ADD THAT CONFINDUSTRIA RECOGNIZED THAT OTHER FACTORS WERE ALSO IMPORTANT.

4. CONCEDING THAT EXPORT STIMULATION WILL NOT SOLVE THE ENTIRE PROBLEM, THE OTHER PART OF THE CONFINDUSTRIA SOLUTION TO THE ITALIAN SITUATION IS TO REDUCE IMPORTS, OR THE COST OF IMPORTS THROUGH A FALL IN THE PRICE OF OIL. MEANS ENVISIONED ARE ENERGY CONSERVATION AND A MAJOR PROGRAM OF ALTERNATIVE ENERGY DEVELOPMENT. WHILE AWARE OF NEED FOR INVESTMENT STIMULATION AND PROTECTION, CONFINDUSTRIA PREFERS THAT THE IEA ESTABLISH A REFERENCE PRICE FOR ENERGY. AS SOLUSTRI EXPLAINED IT, COMPANIES OR ENTITIES WITH ENERGY PROJECTS WOULD MAKE PROPOSALS FOR THEIR REALIZATION DIRECTLY RPT DIRECTLY WITH THE IEA. THE IEA WOULD EVALUATE THE COST OF THE ENERGY PRODUCED, COMPARE IT WITH A PRE-ESTABLISHED REFERENCE PRICE, AND LEVY A TAX OR FEE EQUIVALENT TO THE DIFFERENCE IN THE COST OF ENERGY PRODUCED AND THE REFERENCE PRICE. THIS WOULD PRODUCE A FUND TO SUBSIDIZE ENERGY PRODUCERS SHOULD A DECLINE IN PETROLEUM PRICES FALL BELOW THOSE OF THE PARTICULAR ENERGY PROJECT. APPROVED BY THE IEA. NATURALLY, THE REFERENCE PRICE WOULD BE ABOVE HISTORIC LEVELS, BUT BELOW PRESENT OIL PRICES. NO SPECIFIC LEVELS WERE MENTIONED, BUT SOLUSTRI SPOKE AT LENGTH OF US DOL 5.25/BARREL AS A QUOTE NATURAL UNQUOTE LEVEL BASED ON EARLY-70'S PRICE PROJECTIONS DESIGNED TO ASSURE ADEQUATE SUPPLIES FOR THE MID-70'S. CONFINDUSTRIA WAS NOT EAGER TO SEE A FIRM FLOOR PRICE.

5. SOLUSTRI, LIKE OTHER ITALIAN LEADERS, IS UNHAPPY ABOUT THE APPARENT LACK OF HIGH-LEVEL GOI ATTENTION TO ENERGY POLICY. THE CONFINDUSTRIA STUDY, WHICH HE EXPECTED TO HAVE FINISHED BY FEB. 28, WAS DESIGNED TO HELP FOCUS AND INFLUENCE GOI THINKING ON ENERGY POLICY. SOLUSTRI DISCUSSED THE CONFINDUSTRIA PROPOSALS WITH MFA UNDER-SECRETARY BATTAGLIA (REF B), BUT DISAGREED WITH BATTAGLIA'S INSISTENCE UPON THE IMPORTANCE OF QUOTE POLITICAL UNQUOTE CONSIDERATIONS  
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SUCH AS INDEPENDENCE AND SECURITY OF SUPPLIES.

6. COMMENT: EVEN AT THIS LATE DATE, CONFINDUSTRIA THINKING DOES NOT SEEM REMARKABLY ADVANCED EITHER IN TERMS OF DEVELOPING GOI CONSENSUS ON ENERGY POLICY, NOR ON THAT BEING DEVELOPED IN OTHER FORUMS. NEVERTHELESS, CONFINDUSTRIA IS THE MOST IMPORTANT VOICE OF THE ITALIAN BUSINESS COMMUNITY. THE INTELLECTUAL RATIONALE FOR THIS POINT OF VIEW, AS STATED BY CONFINDUSTRIA AND OTHERS, STEMS AN ITALIAN CONVICTION THAT ITS PRE-1974 INDUSTRIAL POLICY, BASED ON CHEAP OIL AND NO PROTECTION OF DOMESTIC ENERGY SOURCES, GAVE IT SOME COMPETITIVE MARGIN INTERNATIONALLY. SINCE ITALY HAS LOST THIS COMPETITIVE EDGE AND HAS ALSO LOST ITS FORMER EDGE IN LABOR COSTS, ITS FUTURE ABILITY TO COMPETE IS WEAKENED. IN ADDITION, EUROPE AND THE WEST WILL EVENTUALLY HAVE TO ABSORB

THE INDUSTRIAL PRODUCTION BEING CREATED IN THE OIL PRODUCER COUNTRIES AND IN THE OTHER LDC'S, WHICH WILL COMPETE DIRECTLY WITH ITALY. THUS, FOR ITALY, ALL EXISTING PROPOSALS: FLOOR-PRICE, DEFICIENCY PAYMENTS, SPECIAL TARIFFS, REFERENCE PRICES, ETC. ARE LESS THAN IDEAL SINCE THEY ARE BASED ON EQUAL ENERGY COSTS FOR ALL INDUSTRIALIZED NATIONS, AND THUS DO NOT LEAVE OPEN THE POSSIBILITY OF A RETURN TO FORMER CONDITIONS WHICH WOULD RESTORE ITALIAN COMPETITIVENESS.

7. ITALINS NOTE THE CONCLUSIONS BY THE MORGAN GUARANTY AND CHASE MANHATTAN STUDIES WHICH ARE INTERPRETED TO MEAN THAT (A) THAT THE OPEC TREDE BALANCE WILL BECOME NEGATIVE BY 1980 MORE OR LESS, (B) THAT ITALY IS WELL SITUATED TO RECEIVE A SUBSTANTIAL PART OF THE OPEC PURCHASES AND (C) THERE IS LITTLE POINT IN UNDERTAKING LONG-TERM PROGRAMS SINCE THE PROBLEM OF HOW TO PAY FOR THE PETROLEUM WILL BE RESOLVED. THUS, THE PROBLEM IS A QUESTION OF MAINTAINING GOOD COMMERCIAL AND POLITICAL RELATIONS WITH THE PRODUCER COUNTRIES OVER A TRANSITORY PERIOD.

8. THIS ANALYSIS IS NOT SHARED BY GOI OFFICIALS, AS NOTED IN PREVIOUS REPORTING ON GOI ATTITUDES. NEVERTHELESS, IT HAS ENCOURAGED INDECISION IN THE ABSENCE OF HIGH-LEVEL POLITICAL CONSIDERATION, ONLY NOW TAKING PLACE (REFS B,C).  
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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** ENERGY, POLICIES, SURVEYS, PRICE CONTROLS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 28 FEB 1975  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** ellisoob  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
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**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** GS  
**Errors:** N/A  
**Film Number:** D750071-0904  
**From:** ROME  
**Handling Restrictions:** n/a  
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**Office:** ACTION EUR  
**Original Classification:** CONFIDENTIAL  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 4  
**Previous Channel Indicators:** n/a  
**Previous Classification:** CONFIDENTIAL  
**Previous Handling Restrictions:** n/a  
**Reference:** 75 ROME 2224  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** ellisoob  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 04 APR 2003  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <04 APR 2003 by BoyleJA>; APPROVED <16 SEP 2003 by ellisoob>  
**Review Markings:**

Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
05 JUL 2006

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** ITALIAN ENERGY POLICY: EVOLUTION  
**TAGS:** ENRG, IT  
**To:** STATE  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006